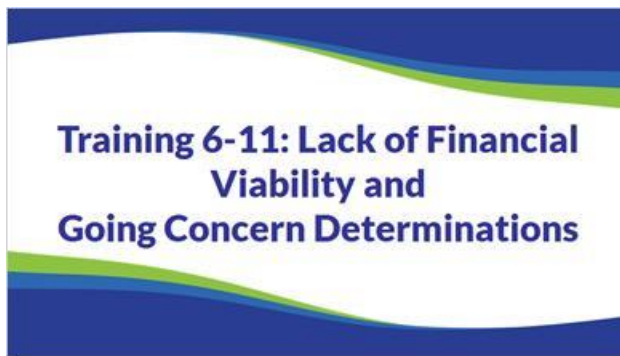


## **Choice Training 6-11: Lack of Financial Via**

### **1. Financial Viability & Going Concern Determinations**

#### ***1.1 Title Slide***



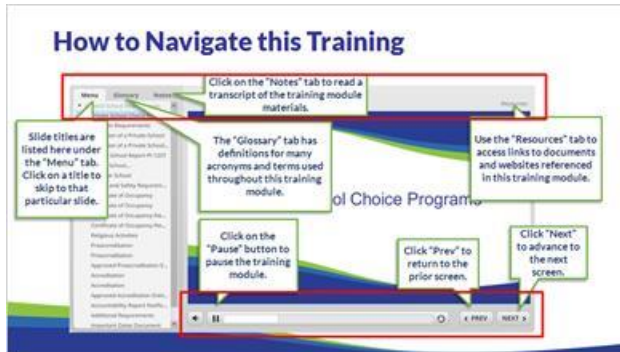
#### **Notes:**

Welcome to the Wisconsin Department of Public Instruction's training module on the Private School Choice Programs. We will refer to the Private School Choice Programs as "Choice" or "Choice program" throughout this training. The Choice program is governed by Wis. Stat. §§ 119.23 and 118.60, as well as Wis. Admin. Codes ch. PI 35 and 48. Provisions of this training module are subject to statutory and rule changes.

In this section we will walk through the considerations for financial viability and going concern determinations.



## 1.2 How to Navigate this Training Module



### Notes:

Before we start, here are some tips and tools you may wish to use when viewing this training.

When listening to this training please note the buttons at the top of the training screen. Titles to all of the slides in this training are listed under the “Menu” tab on the top left of the training screen. You may watch the training in its entirety, or you may skip to a specific slide by clicking on the title of a particular slide.

Acronyms and terms that are used throughout this training are defined under the “Glossary” tab on the upper left side of the training screen. If you have any questions about a particular acronym or term that is used in this training, click on the “Glossary” tab to read the definition of that acronym or term.

The “Notes” tab has a transcript of the training materials as they are presented. If you wish to read along with the training, please click the “Notes” tab on the upper left side of the training screen.

We have also posted resources related to this training which can be found under the “Resources” link on the upper right hand side of the training screen.

Next please note the buttons at the bottom of the training screen. If you want to pause on or during a specific slide, please hit the “Pause” button. Clicking the “Prev” button will allow you to return to the previous slide and clicking the “Next” button will allow you to advance to the next slide, if you wish to advance sooner than the auto-timing.

### ***1.3 Lack of Financial Viability and Going Concern Determinations***

**Lack of Financial Viability and Going Concern Determinations**

- Financially Viability Determination: The department must determine if the school is able to pay for goods and services, make debt service payments, and pay other obligations as they become due.
- Going Concern Determination: The auditor must evaluate and conclude, based on the audit evidence obtained, whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

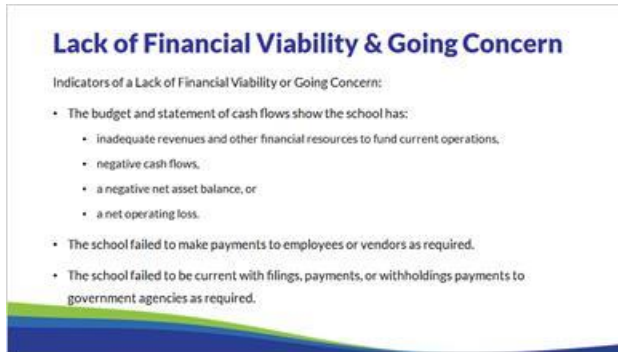
**Notes:**

Financially viable means that the school must be able to pay for goods and services, make debt service payments, and pay other obligations as they become due. Schools that would like to join the Choice program are required to provide information showing that they are financially viable. Additionally, Wisconsin Statute and Administrative Code require that schools participating in the Choice program remain financially viable.

The American Institute of Certified Public Accountants requires that the auditor evaluates and concludes whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. The auditor completes this evaluation as part of the financial audit procedures. If the auditor determines that the school does not have the ability to continue as a going concern for a reasonable period of time, they will include a paragraph in the opinion for the financial audit indicating this.



## ***1.4 Lack of Financial Viability & Going Concern***




### **Notes:**

Wisconsin Administrative Code identifies indicators that the school is not financially viable or that the school does not have the ability to continue as a going concern. These indicators include:

- The budget and cash flow has inadequate revenues and other financial resources to fund current operations, negative cash flows, a negative net asset balance, or a net loss.
- The school failed to make payments to employees or vendors as required. As discussed earlier, the school must pay vendors as required by the written agreement or, if there is no written agreement, within 90 days of invoice receipt or payment request. Employees must be paid as required by the written agreement and payment dates provided to the employees, and at least once every 31 days.
- The school failed to be current with filings, payments, or withholding payments to government agencies.

## ***1.5 Lack of Financial Viability & Going Concern***



**Lack of Financial Viability & Going Concern**

Indicators of a Lack of Financial Viability or Going Concern (cont):

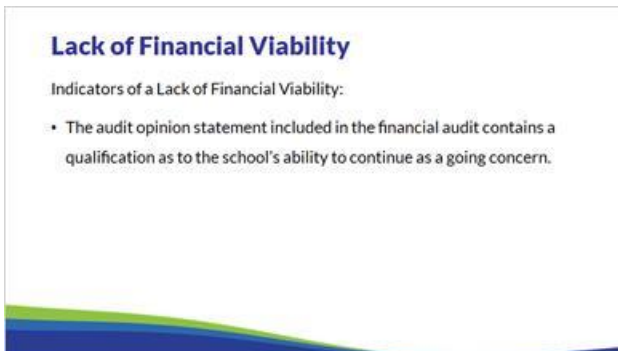
- The audit reports required by federal, state, or local government entities contain questioned costs or compliance findings that may affect the school's ability to continue.
- The school has the following in the financial audit:
  - A negative net asset balance.
  - A negative net current obligation. The net current obligation shall be calculated as the current assets less the current liabilities.
  - A net loss in its financial audit.

### **Notes:**

Another indicator is the audit reports required by federal, state, or local government entities contain questioned costs or compliance findings that may affect the school's ability to continue.

The department and the auditor will also consider the information in the financial audit. Indicators from the financial audit include the school having a negative net asset balance, a negative net current obligation, or a net loss. The net current obligation is calculated as the current assets less the current liabilities.

## ***1.6 Lack of Financial Viability***



**Lack of Financial Viability**

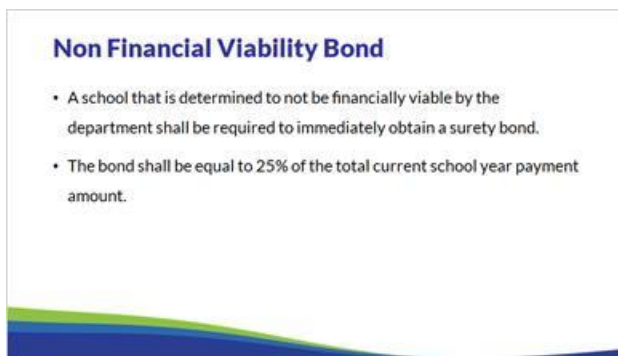
Indicators of a Lack of Financial Viability:

- The audit opinion statement included in the financial audit contains a qualification as to the school's ability to continue as a going concern.

### **Notes:**

Finally, an indicator that a school is not financially viable is if the audit opinion in the financial audit indicates that there is doubt about the school's ability to continue as a going concern.

### ***1.7 Non Financial Viability Bond***



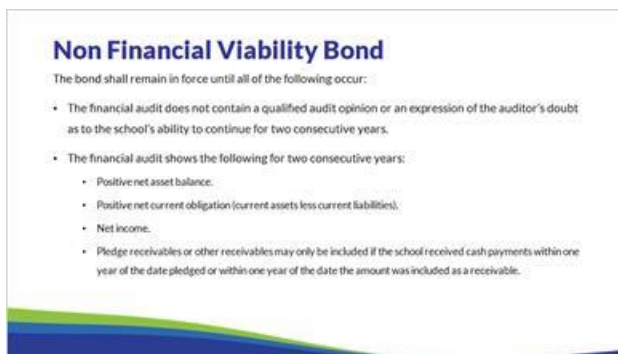
**Non Financial Viability Bond**

- A school that is determined to not be financially viable by the department shall be required to immediately obtain a surety bond.
- The bond shall be equal to 25% of the total current school year payment amount.

**Notes:**

If the department determines that a school is not financially viable, it will require that the school immediately obtain a surety bond. The required bond amount is 25% of the total current year payment amount.

### ***1.8 Non Financial Viability Bond***



**Non Financial Viability Bond**

The bond shall remain in force until all of the following occur:

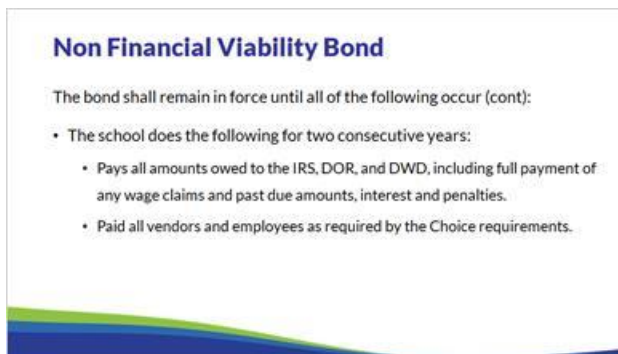
- The financial audit does not contain a qualified audit opinion or an expression of the auditor's doubt as to the school's ability to continue for two consecutive years.
- The financial audit shows the following for two consecutive years:
  - Positive net asset balance.
  - Positive net current obligation (current assets less current liabilities).
  - Net income.
  - Pledge receivables or other receivables may only be included if the school received cash payments within one year of the date pledged or within one year of the date the amount was included as a receivable.

**Notes:**

The bond must remain in force until the school meets the requirements to remove the bond. In order to remove the bond requirement, the school must meet certain requirements for two consecutive years. The requirements are that:

- The financial audit does not have a qualified audit opinion or an expression of the auditor's doubt as to the school's ability to continue.
- The financial audit has a positive net asset balance, positive net current obligation, and net income. In order to determine if the school meets these requirements, any pledge receivables or other receivables that the school has not received cash payments for within a year must be removed. For example, if the school receives a pledge for \$10,000 but only receives \$2,000 within a year, \$8,000 must be removed from the pledge receivables and revenue amount to determine if the school meets the criteria.

### ***1.9 Non Financial Viability Bond***

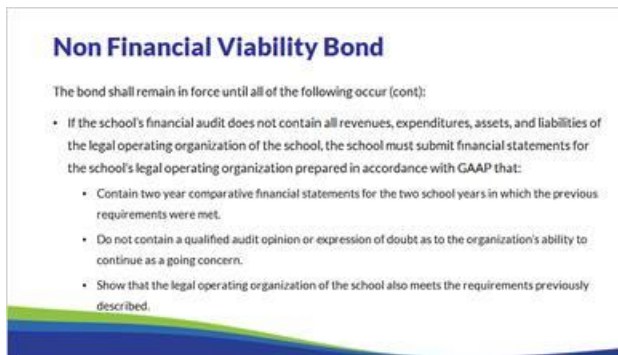


#### **Notes:**

Additionally, the school must pay all amounts owed to the IRS, DOR, and DWD. This includes full payment of any wage claims and past due amounts, interest, and penalties. A payment plan with one of these organizations is not sufficient to meet this requirement. Any amounts owed must be paid off to meet the requirement. The school must submit a letter from the IRS, DOR, and DWD indicating that the school meets the requirement and provide the department with the authority to speak directly with the agencies to confirm it meets the requirements.

The school must also have paid all vendors and employees as required by Wisconsin Administrative Rule. In order to determine this, the department will review the results of the Fiscal & Internal Control Practices Report and any other information available to the department.

### ***1.10 Non Financial Viability Bond***

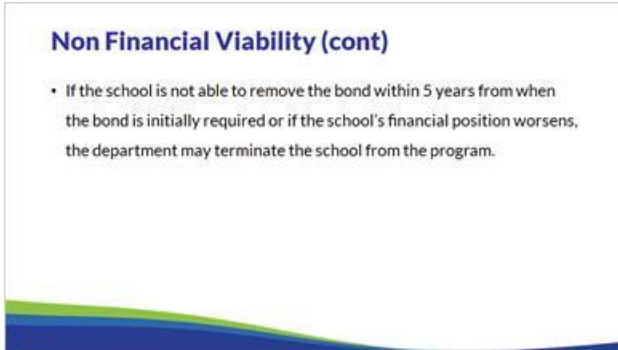


#### **Notes:**

Schools have the option of providing the annual financial audit required for the Choice program at either the school only level or at a consolidated level, if permitted by Generally Accepted Accounting Standards or GAAP. If a school with a surety bond requirement provided a financial audit at the school only level, it must provide a GAAP audit at the school's legal operating organization level in order to remove the requirement. After the school has met the other requirements based on the financial audit for 2 consecutive years, it must provide a GAAP audit at the school's legal operating organization level. The audit may not include a qualified audit opinion or expression of doubt as to the organization's ability to continue as a going concern. The audit must show that the legal operating organization of the school also meets each of the requirements previously described.



### **1.11 Non Financial Viability (cont)**



**Non Financial Viability (cont)**

- If the school is not able to remove the bond within 5 years from when the bond is initially required or if the school's financial position worsens, the department may terminate the school from the program.

**Notes:**

If the school is not able to meet all of the requirements within 5 years of the bond being required or if the financial position worsens, the department may terminate the school from the Choice program.

### **1.12 Questions**



**Questions**

Website: <http://dpi.wi.gov/sms/choice-programs>  
Email: [privateschoolchoice@dpi.wi.gov](mailto:privateschoolchoice@dpi.wi.gov)  
Phone: 1-888-245-2732 ext. 3

**Notes:**

If you have any questions about the information discussed in this training, please see the Private School Choice Programs homepage. The left menu bar of the Private School Choice Programs homepage has resources for both schools and parents.

Choice schools may also contact the Choice team at [privateschoolchoice@dpi.wi.gov](mailto:privateschoolchoice@dpi.wi.gov), or

call the toll-free number at 1-888-245-2732, extension 3.